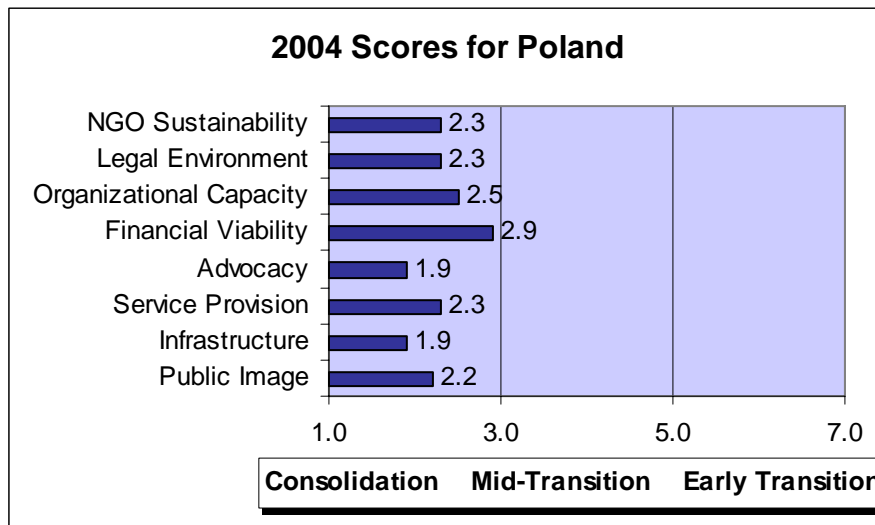
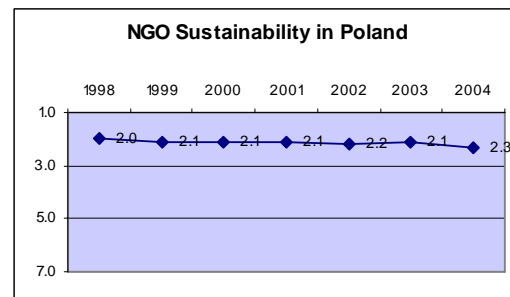

POLAND

**Capital:** Warsaw**Polity:** Republic**Population:**
38,630,000**GDP per capita
(PPP):** \$11,100**NGO SUSTAINABILITY: 2.3**

According to a survey in April 2004, there are approximately 52,000 registered non-governmental organizations in Poland—of which 41,000 are associations and 11,000 are foundations. Almost half of the registered NGOs are headquartered in large cities. Two-thirds of Polish NGOs do not have any permanent paid employees, so the third sector accounts for a much smaller percentage of employment than the EU average (about 1.2% of the non-agricultural employment). Organizations are active both in providing services to their beneficiaries, and in advocating on behalf of their constituents. Most NGO programming is in the areas of sports and recreation, culture and art, education, social services, and health care. A significant number of NGOs that provide social and educational services are affiliated with the Catholic Church.



Overall, the annual budgets for NGOs have declined by approximately 20% between 2001 and 2004. Most Polish NGOs remain financially dependent on grant support from various donors. Public sources (local and national) continue to provide the largest percentage of revenues to the NGO sector: 30% of the total receipts. More and more organizations have started engaging in economic activities, and many have great expectations of EU funding that has come available—more

than 70% say that they plan to submit proposals.

The Public Benefit Activity and Volunteer Work Act, which was passed in May 2003, introduced a mechanism under which taxpayers can dedicate 1% of their Personal Income Tax to Public Benefit Organizations (PBO is a new legal status available for NGOs focused on public benefit activities). While public contributions could be made in

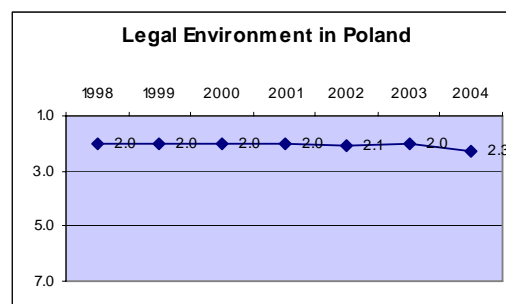
2004, most taxpayers were not aware of this opportunity. In addition, many organizations did not obtain PBO status on time. As a result, only 0.35% of Polish taxpayers dedicated 1% of their Personal Income Tax to PBOs, a total of 10,305,000 PLN (about USD 3,200,000). Higher numbers are expected for 2005, as NGOs mount aggressive awareness campaigns about the act.

LEGAL ENVIRONMENT: 2.3

In 2004, the civil society sector continued to be hampered by Poland's ambiguous legal regulations and their inconsistent interpretation. The Public Benefit Activity and Volunteer Work Act—referred to as the PBA Act and considered the “third sector constitution”—was passed into law in 2003, but has yet to live up to expectations. One key mandate that remains unmet charges the government at the municipal and district levels with passing annual cross-sector co-operation programs. NGOs were also expecting more opportunities to bid on government-issued contracts to provide public services, and clearer legislation with regard to non-profit tax law. Some provisions of the Act were stifled because of their contradictions to other regulations contained in previous legislative acts. However, the PBA Act did provide clarification on a number of issues that had previously been omitted in legislation, and gave NGOs an opportunity to build their awareness about laws governing the sector.

The freedom of assembly is a civic right guaranteed by the constitution, but the

mandatory process of registering an organization in the National Court Register is dissuasive — it involves protracted court proceedings, very complex administrative procedures, and high registration fees.



The freedom for operations to conduct their activities is also guaranteed by law, as is the freedom to address matters of public debate. In practice, state officials rarely consider the opinions of those in the NGO sector, though many organizations, especially those at the grassroots level, have informal relationships and personal connections with local authorities. In addition, there is also a lack of balance in the state's capacity to monitor NGO compliance with the law. In many cases, audits are

administered in a way that they become harassment, and in other cases, NGOs that act as a cover for business or criminal activities are not caught.

The 1% law, whereby taxpayers can designate 1% of their tax liabilities to go to specific public benefit organizations (NGOs can register as such), was introduced this year, one year ahead of schedule. NGOs were taken by surprise and only a few had time to register and campaign for support among their constituents. As a result, only 80,000 (less than 1%) of taxpayers allocated their 1% of tax due to an NGO of their choice. By the end of 2004, more than 2,700 NGOs were registered as public benefit organizations and they have awareness campaigns well underway to encourage the public to take advantage of the new law. The Polish government has not yet committed to matching any of these funds.

Finally, the VAT Act passed in 2004, has been detrimental to NGOs, in that VAT is now imposed not only on their revenue-generating activities but also on the organization's statutory operations for which they received payment. In the past, the law permitted NGOs to charge fees for services that were within their mandate, so that they could recover their costs. The VAT has been likewise applicable to donations and endowments from corporate donors. The tax for in-kind contributions is calculated using the value at the time of production, not the market value at the time of donation. Consequently, the amount of the due VAT often surpasses the costs of utilizing some products (e.g., food). While the challenges of adopting the VAT are common for countries working to achieve EU harmonization, this is a notable change from prior years where the Polish taxation system was one of the most advantageous in Europe for NGOs.

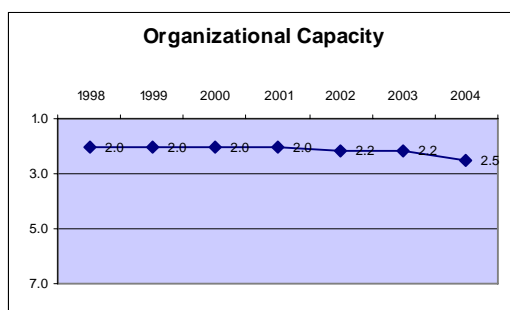
ORGANIZATIONAL CAPACITY: 2.5

Challenges continue to exist in expanding the member base of Polish NGOs, but the 1% law may generate new interest as organizations now have tangible incentives to build public awareness about their activities and successes. The NGO sector is also optimistic that the PBA Act will provide guidelines for NGO operations, increasing and using the capacity of the sector—a sector that is functional but in need to some revitalization. In general, the strategic planning capacity of the NGO sector is weak. Some organizations may plan for the coming year, but most are constantly in crisis. Urban organizations are generally better

at planning than those in rural areas, and the larger organizations are better positioned and better qualified to compete for the EU structural funds.

One example this year of the NGOs' success in winning EU funds was the competition under the EQUAL Community Initiative (counter-acting discrimination in the labor market), in which both public institutions and NGOs could apply for funding. The great majority of the projects selected were submitted by NGOs. The NGO community had great expectations for the regional development programs financed by EU funds. Unfortunately,

these programs have fallen victim to the highly centralized administrative system whereby the ministries take control of managing these funds, even though most projects are carried out at the local or regional level. The NGO community is hopeful that the PBA Act will help to decentralize control of these funds.



NGO staff is generally under-skilled and turnover is high, due to low wages. NGOs cannot afford to hire professional staff (lawyers, accountants) or consultants, and their most committed members suffer from burnout. While training opportunities exist, they are too

expensive for NGO staff and are often not available to organizations outside of the major cities. Volunteerism is growing, and is considered a valuable job experience, and a good way of entering the “real” job market. As a result, turnover of volunteer workers is high. Many NGOs are not aware that they can offer volunteer opportunities to students. The government is using the PBA Act as a tool to encourage volunteerism, requiring written contracts and accident insurance of host organizations.

Only a handful of organizations meet formally, few coalitions exist, and the “culture of association” is not well developed. Procedures for organizing groups and holding effective meetings are not well practiced. On the other hand, more and more Polish NGOs use the Internet to access information, and they tend to have the modern technical equipment they need.

FINANCIAL VIABILITY: 2.9

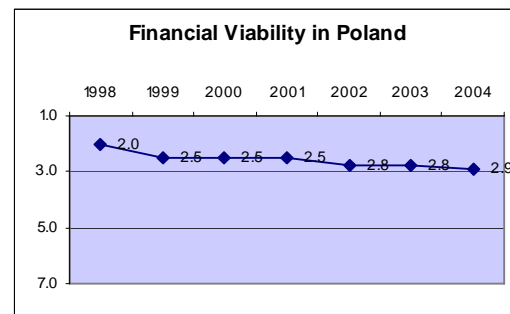
NGOs rely heavily on state funding, with only a small portion of support coming from private sponsors and revenues from products and services. Diversity and multiple sources of funding can be found only in the biggest, leading organizations; most NGOs need to diversify their funding base, and work towards long term strategies so they don’t have to operate “from hand to mouth.” More than a half of these organizations face financial problems, and only one in five NGOs deems their financial situation as stable and unlikely to deteriorate.

As in previous years, local governments are one of the primary supporters of the non-profit sector. Local government representatives often admit that social problems are more easily addressed with the help of NGOs, but NGOs are still commonly contracted to perform support functions. The PBA Act has caused confusion about who can be awarded contracts for such work by creating a designation of Public Benefit Organization (PBO). PBO status is a special legal status reserved for only those NGOs that provide public benefit services. Receiving PBO status provides some privileges, such as access to the

1% tax benefit, but also some additional obligations, such as reporting and public control. Though the PBA Act guarantees equal treatment to all NGOs with regard to open tenders issued by the government, in practice, local governments tend to favor PBOs.

Another challenge for NGOs results from the tendency of local government authorities to award grants and contracts at the end of a year, as late as December, to spend out their annual budgets (unspent money is returned to the state). NGOs run their programs using their own financial resources throughout the year, waiting for public subsidies to flow in at the end of the year to retroactively cover some of the costs. From a legal standpoint, the government cannot buy services delivered in months prior to the contract/grant being awarded, but the system persists.

Though less than one-third (800 out of 2500) of local governments had annual cross-sector co-operation programs at the end of 2004, the number is expected to increase in 2005 as a result of the PBA Act provisions that require such collaborations. While this promises to increase the sector's involvement, a challenge remains. NGOs often have to compete with the local governments, some of which have formed associations of a special kind (Polish law allows this) with the intention of accessing the financial resources intended for non-profit organizations. In such cases, a group of public officials gain control of public money as the leaders of quasi-NGOs; in their view, the day-by-day control of spending public resources is more effective than an occasional decision to award a tender.



Local businesses are more inclined to cooperate with NGOs than in previous years, and there are many local partnerships emerging. It is also easier to build relations between businesses and NGOs as the business sector is becoming more aware of their social responsibility. Small businesses also prefer to invest in local initiatives, feeling strongly that “the benefit must remain in the community”.

As the practice of developing a membership base is practically nonexistent, membership dues make up some 2% of the average NGO budget. NGOs are hopeful that the 1% law will gain momentum; in 2003, the first year of this provision, only 80,000 people (less than 1% of taxpayers) contributed to supporting NGO activities. The government is launching awareness-building campaigns in early 2005 directed at both NGOs and the public to encourage participation.

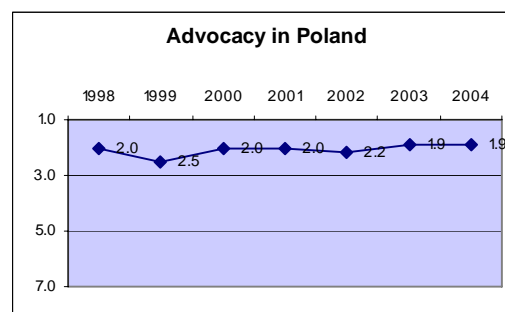
NGOs' financial management systems are improving, but still only few NGOs employ accountants. Relatively few organizations publish their annual reports, and only the large organizations can afford to perform annual audits.

ADVOCACY: 1.9

In 2004, NGOs were more often engaged in dialogue with local and central governments, in spite of there being no official guidance requiring such consultation. The PBA Act did establish the Public Benefit Activity Council, an advisory body to the cabinet minister created to formalize the relationship between public authorities and NGOs. It is composed of twenty members—five representatives from the central administration, five representatives from local governments, and ten NGO representatives. The Council was involved in organizing the Civic Initiatives Fund to increase redistributive effect of 1% tax allocations (this Fund, a three-year government program, has been accepted by Polish Parliament in 2005 with an annual budget of 3,000,000 PLN—approximately USD 937,000).

The number of NGO coalitions is on the rise, as NGOs begin to understand the power of collective action. A number of small coalitions are proving quite effective in their advocacy efforts, including their role in the campaign for EU accession. As a result, a group of

NGO experts have been named “liaison officials” to represent the sector in dealing with the EU structural funds. But, while NGO opinions were being solicited, there is little evidence that they were being used to affect the legislative process.



Especially at the local level, NGOs still feel the need to be cautious while they engage government officials on the issues and programs, as they are often financially dependent on the contracts and grants that are awarded by those same officials. As they become more active in advocacy campaigns, NGOs also need to ensure that they remain connected to their constituencies, providing them with information and representing their interests.

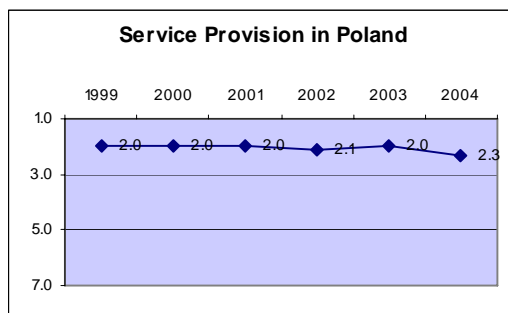
SERVICE PROVISION: 2.3

The range of goods and services offered by the NGOs in Poland is varied, but tends to focus on the social sectors and environmental conservation. Few NGOs address business development or economic growth opportunities. While NGOs are not looking to expand their services to serve new markets, some

have begun to realize the value in diversifying and are looking to broaden how they define their constituency.

In general, NGOs do not conduct formal, systematic needs assessments. There are some organizations that are in tune with the needs of the local communities they

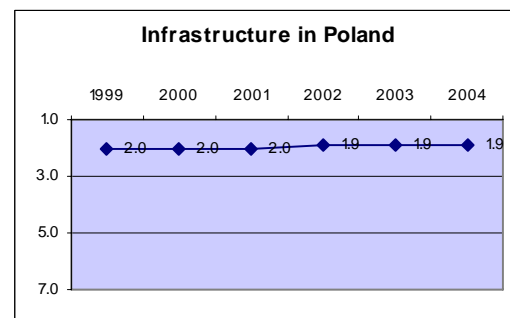
serve, and are able to justify support for their programs. These are often able to recover their costs. NGOs that are unable to articulate the needs of their constituents are unable to recover their costs from goods and services provided, and often lose their public funding. When this occurs, officials argue that they are more knowledgeable about the communities' needs and implement programs themselves.



Because financial sustainability is such a challenge, NGOs tend to “follow the money.” Currently, they are applying for EU funds, rather than staying focused on their own missions and continuing to address the needs they know exist. Though this strategy is sometimes necessary for the survival of an NGO, it is detrimental to their long-term viability as they are unable to articulate, rationalize and show progress towards their own goals.

INFRASTRUCTURE: 2.9

NGOs that seek support and assistance have wide access to Intermediary Support Organizations (ISOs), which operate in most big cities. ISOs are financed by domestic and foreign funds, and the thematic range of support it offers to local communities is continuously growing. However, only a small part of the support organizations' income comes from the fees for service (this form of earning income is still developing) and local sources. While ISOs are increasingly able to provide tailored services and products, funding constraints keep them from meeting all of the needs of their clients. Training courses are expensive and only offered at the ISO offices in urban areas. Universities have been invited to assist in increasing the quality of the content of the ISOs' courses.



ISOs also offer legal advice to NGOs, as there are still not enough lawyers trained in NGO law, and their services are expensive.

An important informational resource for Polish NGOs is the www.ngo.pl portal and associated regional portals. Many NGOs use the Internet to exchange information.

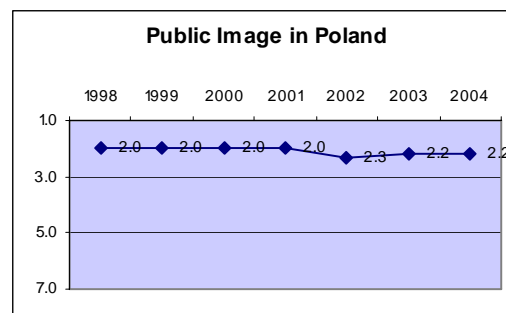
PUBLIC IMAGE: 2.2

Public opinion of the NGO sector is neutral, mostly influenced by what the media reports and the little common knowledge that exists about the work that charities do—but correct attribution is often a problem. People who have direct interaction with NGOs appreciate their contributions. There is hope for improving the sector's public image through the campaigns for 1% provision, an impetus for NGOs to build their skills in public relations. NGOs are also increasingly successful in circulating information in towns and villages using the Internet.

Media interest in the non-profit sector is growing, but coverage is usually of “hot” news—scandals and large events—without including in-depth analysis or context. Local media are more likely than national media to cover NGOs, but are heavily monitored and at risk of being taken over or dissolved.

The government and businesses treat NGOs instrumentally, as useful partners for their “image” and to validate their actions. Sometimes this type of

collaboration results in funding for the NGO to implement projects.



Self-regulation of the NGO sector proceeds very slowly, as no further developments have taken place since the NGO Charter of Rules (a code of ethics) was put in place in September 1997. Only few organizations are aware of the importance of such guidance for building relationships with the public, the government, businesses and the media. Too few organizations publish their annual reports. Many organizations believe that their mission excuses them from being transparent in their own management. The PBA Act may be the catalyst for change, as it requires public benefit organizations to operate in a transparent manner.